

Forward-looking Dialogue between Supervisors and Industry Stakeholders

Opening Remarks by Hiroshi Ota, Deputy Commissioner for International Affairs, Japan Financial Services Agency, at the ADBI-JFSA-OECD Roundtable on Insurance and Retirement Saving in Asia, Tokyo, April 25, 2018.

Change of business environment surrounding the insurance sector

Good morning. As a JFSA representative, it is my great pleasure to co-host this roundtable in Tokyo and have an opportunity to speak in front of you. Taking this opportunity, I would like to share with you what the JFSA had in mind in setting the roundtable agenda, and then, as I am heavily involved in the activities of the International Association of Insurance Supervisors, or IAIS, I would like to talk about its future activities.

In major advanced countries including Japan, adjusting business strategies to a protracted low-interest rate environment has been one of the most urgent issues for financial institutions. The environment has put stress particularly on life insurers, as they have long-term liabilities but the duration of their assets is not long enough to match. Insurance supervisors and the industry have discussed tools to assess future impacts and implications.

While it is certainly necessary to address those imminent issues, it is also important for both supervisors and stakeholders to have a dialogue on issues that would have medium and long term implications for the insurance sector. This is the idea behind the agenda of today's roundtable.

For example, in Japan, the working-age population has decreased since 1998, and it is expected that the trend will remain unchanged in the future. The domestic insurance market, already considered to be mature today, is expected to shrink. In such a macro-economic situation, the traditional business model that presumes the natural increase of insurance premiums would not be sustainable.

Thus, insurers in Japan have been pushed to adjust their business model toward

the future. For example, some Japanese insurers have recently increased their cross-border activities, investing in foreign securities and merging with insurers of other countries. In other cases, Japanese insurers investigate the use of information technology; for example, together with overseas insurers, some insurers develop blockchain technology for globally operating insurance business and establish an industry-wide platform.

Furthermore, after the Paris Agreement in 2015, there has been growing momentum to address the issue of climate change. Public expectations have been rising for insurers to take further actions as important institutional investors and insurance providers for natural disasters.

The development of the market, innovation, and the increased social role of insurance are all welcome. What supervisors need to do is to understand the implications of insurers' changing business models in adapting to a new environment. For example, mergers and acquisitions of foreign companies that have corporate cultures different from Japanese companies would require enhanced corporate governance; and insurers' use of big data may warrant stronger protection of policyholders' interests.

Thus, supervisors should have more cross-border discussion as insurers do. The market is developing rapidly. To promote the development of a sound financial regulatory framework and financial markets, information sharing and supervisory cooperation is becoming more necessary.

The future of IAIS activities

Now, let me turn to the issue of the IAIS.

Ten years have passed since the last global financial crisis. During this time, the IAIS has developed several regulatory frameworks, such as the policy measures for global systemically important insurers and the Common Framework for the Supervision of Internationally Active Insurance Groups, to address the issues recognized during the crisis. The plan is to finalize the Common Framework in 2019, and once it is finalized, more focus would be placed on the implementation of established standards and its impact assessment.

The Insurance Capital Standard, or ICS, is a major component of the Common Framework, and a project of highest priority for the IAIS. The IAIS decided to introduce a five-year monitoring period following the completion of the Standard by the end of 2019, and to use the ICS in this monitoring period for discussion in supervisory colleges. I think it is a significant step forward for IAIGs and their supervisors to start using the international common language on group solvency that enables us to compare an insurer of one jurisdiction with another one in another jurisdiction. During the monitoring period, we may need to think of what further considerations would be necessary to enable the supervisor of each jurisdiction to incorporate the ICS into its national regulatory framework.

Regarding systemic risk, the IAIS published last December a consultative document on an activities-based approach (ABA). The approach intends to mitigate potential systemic risk arising from the collective activities of insurers. It is different from the existing entities-based approach (EBA) that intends to mitigate the potential for systemic impact due to the failure of a large single insurance group. As the interaction between ABA and EBA is one of the key factors to consider, the IAIS plans to outline its idea on a holistic approach in a consultation document to be released by the end of 2018.

Looking further forward, the IAIS has begun to develop its next five-year plan. The IAIS aims to approve the plan in autumn this year, at its 2018 Annual General Meeting. Once approved, the new Strategic Plan and Financial Outlook (SPFO) will begin in 2020. In designing the future plan of IAIS activities, we need to wisely determine our priorities among many projects to better allocate our limited resources. For example, standard-setting and information sharing are both important activities of the IAIS, and we need to achieve the right balance between the two. Also, considering that the IAIS is an association of more than 200 members, its activities should be relevant to both advanced countries and emerging market economies.

Conclusion

Let me conclude my comments. I hope that this roundtable will be a great

opportunity for both supervisors and stakeholders to have a better understanding of the future of the insurance business environment. I am looking forward to hearing from, and having discussions with, various experts from around the world about substantial issues that may warrant our attention in a forward looking manner.

Thank you for your attention.